25X1C

[redacted] KENYA

I/NEA Contribution to Economic Chapter

Project No. 40.4262

25X1A [redacted]

12 December 1963

A. General

Texas-size Kenya actually has two economies which have existed side by side since shortly after the turn of the century. One is the highly developed agricultural and commercial economy which was established and developed and is still being run by European and Asian immigrants. The other is the relatively backward African agricultural and herding subsistence economy where little more is grown than is actually needed for the immediate family. The market economy is composed of about 56,000 Europeans (chiefly British), 176,000 Asians (mostly Indians, Goans, and Pakistanis) and about 1,250,000 Africans (primarily unskilled workers and their families). The prosperity of this market economy is based largely on exports of agricultural goods and, to some extent, on foreign funds invested in various enterprises throughout Kenya. These enterprises have been largely responsible for the construction of the network of roads, communication facilities, and the public utility services available in the cities.

The non-market economy is substantially larger, in terms of the number of people involved, than the market economy and consists of about 7,100,000 Africans who exist chiefly by subsistence farming (3/4) and herding (1/4). This group is not much better or worse off than similar

groups throughout tropical Africa. Things are beginning to change, however, and in some areas very rapidly. Thousands of relatively prosperous African coffee and pyrethrum farmers -- pyrethrum is a type of white chrysanthemum from which is extracted an insecticide -- have made their appearances in the Central and Nyanza Regions.

While agriculture is the major economic activity, industry and construction are also important and have grown substantially in the past 10 years. In fact Nairobi -- the capital of Kenya -- is now the major manufacturing center in East Africa and is a surprisingly modern metropolis.

Kenya has several basic economic weaknesses which could be aggravated in the post-independence period which began on 12 December 1963. There has been some uneasiness among the white community as a result of independence, and business activity -- especially construction of new buildings and the flow of investment funds from abroad -- has declined. In addition, the new African government has adopted a policy of buying white-owned farms and turning them over to Africans and this may result in a decline in farm production. Moreover, prices for agricultural goods have tended to decline in recent years, especially for coffee which is Kenya's major export.

B. Natural Resources

Kenya's chief natural resources are its farmlands and forests. No mineral wealth of any consequence has been discovered despite a survey

which, by the beginning of 1962, had covered about half the country. A fairly extensive search for oil has thus far been unsuccessful. In fact, aside from fuelwood, Kenya has no domestic fuels. Gold was once mined in some quantity but output declined from about $1 million in 1940 to just over $250 thousand in 1960. The country's main gold mine was exhausted by 1952. Occurrences of iron, nickle, chrome, and other metals and minerals have been discovered; however, the deposits usually are too small, too low in quality, or too remote for commercial exploitation.

Gypsum and lime are mined for use in the local cement industry, but a lack of domestic coal to operate cement plants has made that industry dependent on foreign coal supplies, chiefly from South Africa. There is also substantial production and export of soda ash.

C. Industry and electric power

Manufacturing industries in Kenya were originally established to process agricultural products. In recent years, however, the variety of industries has broadened considerably. The list of products manufactured locally ranges from Acetylene to Wattle Bark Extract and includes some unusual operations such as the compression of carbon dioxide drawn from wells drilled along the edge of the Rift Valley and the manufacture of dry ice. Generally, however, Kenyan manufacturing is concentrated on the production of consumer goods, for example 11 million gallons of beer in 1962, and the processing of agricultural and forest products. Heavy industry

is virtually non-existent. Nairobi is Kenya's main manufacturing center and employs about 40% of the industrial labor force. There is a smaller concentration of industry in Mombasa, but aside from these two cities industry is generally located away from the principal towns. This scattered pattern reflects the importance of industry devoted to processing forest products (sawmilling) and agricultural products (sugar refining).

In the absence of other sources of energy Kenya is dependent on electricity for much of its power. In 1961 about one-half of the electric power used in Kenya was imported, mostly from the Owens Falls plant in Uganda. A much smaller amount comes from Tanganyika. Within Kenya there are some hydroelectric installations but most of the power is generated by thermal plants using fuel oil. There are two major electric power supply areas in Kenya: the Nairobi area, including towns along the railroad leading northwest; and the coastal area centering on Mombasa. The Mombasa output is generated largely by oil-fired plants in Kenya supplemented by small supplies from Tanganyika. Electric power companies are owned partly by the government of Kenya and partly by private firms, including a number of British insurance, banking, and investment companies.

D. Agriculture, forestry and fisheries

Kenyan agriculture is divided into two distinct sectors. Formerly these were called European and African but now they are known respectively

as scheduled and nonscheduled. Most of the agricultural production comes from the small number of European and Asian holdings in the scheduled sector -- there were 3,600 such farms in 1961. The gross income of these European and Asian farmers was about $100 million. By comparison the 950,000 African farms (in the nonscheduled sector) had an estimated gross income of only $130 million.

The equator cuts through the center of Kenya, but because of the country's sharply differing physical characteristics, the type of products grown varies widely. Along the coast only a narrow belt of land has sufficient rainfall to grow tropical products -- sisal, cotton, sugar cane. Moving west, however, the countryside quickly changes to arid desert and in the far west to mountains and uplands. Most of Kenya's crops are grown in an area which roughly surrounds the railroad lines moving northwest from Nairobi.

Only about 13% of the country's 225,000 square miles consistently receives sufficient rainfall -- above 30 inches yearly -- for intensive livestock and crop production. Most crop production is concentrated in the highlands.

In the modern or European farming area, large scale, highly mechanized agriculture is practiced. This covers mixed farming, including the production of wheat, corn, and other cereal grains, ranching and plantation

farming of such crops as sisal, tea, coffee, and sugar (Asians control the sugar industry). This sector of the agricultural economy provides 9/10ths of Kenya's total exports, and is the main source of food for the cities.

About 37,000 square miles (23,700,000 acres) of the area farmed by Africans is considered to have the potential for high production. Arabica coffee plantations in African areas amount to more than 33,000 acres and produced about 6,500 tons of coffee in 1960 -- total Kenyan coffee production was about 23,000 tons. More than 100,000 African farmers grow coffee and the government hopes that by 1970, 400,000 Africans will be producing an annual crop of 60,000 tons. Africans also grow tea on about 1,500 acres (1959 estimate). In addition to coffee, African peasants are making important contributions to pyrethrum, maize, horticultural, and livestock production. Cattle raising, however, is limited to those areas free of the animal-killing tsetse fly. Corn is the staple diet of the African population. Africans are the sole producers of raw cotton.

Kenya's forests are an important national resource. In 1960, forests covered about 5.5 million acres -- approximately 3% of the total land area. The government is establishing new forests, especially softwoods such as cypress and pine. In the Kenya highlands, for example, plans call for increasing the softwood forests to about 240,000 acres by 1968 compared with only 92,000 acres in 1956. While forests are important economically, their development is a long term endeavor. The first

thinning usually takes place after 17 years, a second thinning at about 25 years, and the main felling after 35 years. Most forests in Kenya are owned by the government.

Fishing is unimportant in Kenya. Most profitable types of fish are found beyond Kenya's territorial waters and there would be considerable competition with more advanced fishing countries. Moreover, except along the shores of Lake Victoria and Lake Rudolph, the bulk of the population are not fish eaters. Lake Victoria is overfished and an increase in the fish take would require a substantial restocking program. Fish prospects in Lake Rudolph in the north are practically untouched; the lake, however, is about 300 miles from the nearest railroad and can be reached only by desert tracks.

E. Employment and labor

In 1960 there were about 620,000 people working outside the traditional sector of the economy: about 90% were Africans; 6% Asians; and 4% Europeans. In all categories of employment Europeans and Asians were in the minority although they held most of the skilled jobs and professional positions. In commercial agriculture, for example, there were only about 2,700 Europeans and Asians compared with almost 270,000 Africans. With independence the process of Africanization -- replacing Europeans and Asians with Africans -- is expected to grow. The problem,

however, is one of finding qualified African workers. Because there are so few trained Africans, Europeans and Asians will play a prominent role in agriculture, business, and government for many years to come.

Despite relatively strenuous Soviet Bloc efforts, the Kenyan labor movement is not yet appreciably influenced by Communists. The Kenya Federation of Labor is still Western-oriented, although in recent months the Federation has come under increasing pressure to sever its ties with the Free World trade union movement. For example, the extreme pan-Africanist, President Nkrumah of Ghana, has been particularly active in efforts to have the Kenya labor movement affiliate closely with leftist-oriented African and World labor organizations.

F. Foreign trade, loans, and aid

Kenya is heavily dependent on foreign trade to market its agricultural products and to purchase needed industrial and consumer goods. In 1961, exports were valued at about $100 million and imports at $175 million. The United Kingdom was the largest customer taking 24% of Kenyan exports; West Germany was second with 17% and the United States third with 14%. Kenya purchased 56% of its imports from the United Kingdom, 6% from the U.S., and 5% from West Germany.

The United Kingdom is the largest source of foreign loans and grants. For the fiscal year ending 30 June 1964 the U.K. will provide $52 million

in grants and will disburse about $20 million in loans. Kenya also receives some private aid from the U.K. and other Commonwealth members. U.S. private aid includes grants from the Ford, Rockefeller and Carnegie Foundations. Official U.S. aid amounted to $5.3 million in 1963 but was planned to decrease to $5.1 million in fiscal year 1964. Other sources of foreign loans and grants in 1963 included the International Bank for Reconstruction and Development, $14 million, the UN Special Fund, $3 million, West Germany, $8.7 million. Thus far there has been no assistance from the Communist Bloc except for about 400 students studying in Communist countries.

G. Budget and Finance

The ordinary budget of Kenya totaled about $115 million for the year ending 30 June 1962. The two major revenue items were customs and excises (32%) and income tax (22%). The largest expenditure items include law and order (20%), education (19%), and agriculture and veterinary (13%). The currency used throughout Kenya is called the East African Shilling which is divided into 100 cents. The shilling is worth about U.S. 14 cents.

A development budget guided the expenditure of funds under the three year development plan which began in Fiscal Year 1961. The total cost of this plan was about $95 million of which $85 million was actually spent. However, $20 million of these funds were used to purchase farms

from white owners as part of an African resettlement scheme and hence were not, strictly speaking, development funds.

STANDARD FORM NO. 64

EP 63-96

Office Memorandum • UNITED STATES GOVERNMENT

TO : Chief, Economic Research Area

THRU : Chief, International Division

FROM : Chief, Near East-Africa Branch

DATE: 12 December 1963

25X1C

SUBJECT: Submission of Economic Chapter of Kenya, ORR Project No. 40.4262 [redacted]

1. The attached submission is due to the project coordinator by 20 December 1963. While the textual material is complete two additional attachments will be forwarded within the next two weeks: (1) 2 or 3 photographs of economic activities peculiar to Kenya, and (2) a list of electric power lines and substations with coordinates. Both of these items are responsive to requirement I in the terms of reference.

electric power contribution completed 20 Dec

2. You will recall that the manner of presenting the economic data on Kenya was rather precisely delineated and to assure that the requirements were fully met a rough draft was checked out with the coordinator. His comments are fully reflected in the attached draft.

3. The ORR geographic shop will forward, under separate cover, an economic activites map being prepared in conjunction with I/NEA.

25X1A [redacted]

Attachment: As Stated Above

5h/396-51

R/EP Contribution to
ORR Project 40.4262

25X1C

[redacted] - Kenya

25X1A [redacted]

R/EP
Extension 7717
19 December 1963

25X1C [redacted] - Kenya

Electric Power

The total capacity of electric powerplants in Kenya is approximately 82 megawatts (mw). In addition the Kenya Power Company has a 50 year contract to purchase up to 43 mw of electricity from the Owens Falls Hydroelectric Powerplant in Uganda. This represents almost 50 percent of the total sales of electric power by the Uganda Electricity Board. The powerplant capacity in Kenya, supplemented by imports of power from Uganda, is adequate to supply the present demand for power in Kenya. Imports from Uganda can be increased by one-third the present rate, and plans for a large hydroelectric project in Kenya are now under diacussion to take case of future needs.

There are two separate power systems in Kenya - a major system extending across the northwest and central areas, and a small system in the southeast coastal area, centered in Mombasa. The backbone of the major system is a double circuit 132 kilovolt (kv) transmission line from Tororo in Uganda, near the border of Kenya, to Nairobi. This power line, which extends 251.5 miles, terminates at a substation at Juja Road in Nairobi. The major supply of electric power to Nairobi and vicinity comes from the Tana and Wanjii hydroelectric powerplants near Fort Hall, with a combined capacity of 22 mw, and from the Owens Falls Hydroelectric Powerplant in Uganda, which is now supplying Kenya with 30 mw of power. The Owens Falls powerplant is also the major source of supply for the Rift Valley area, in northwest Kenya. A 66 kv

transmission line runs from the Tana and Wanjii hydroelectric powerplants north of Nairobi into the Juja Road substation, which is the focal point of the local system. Between Tororo and Nairobi there are two substations, at Lessos and Lanet, which supply 33 kv networks to the north and south of the main transmission line.

The coastal area of Kenya is not connected with the central and western areas. The principal source of power is the Kipevu thermal powerplant in Mombasa. A new 33 kv transmission system has recently been completed with substations at Mahaude Road, Mombasa, at Nyali (04-01S; 39-44E), and Mbaraki (04-04S; 39-40E). A transmission line extends north along the coast to Kilife and on to Malindi. There is also a line from Mombasa south to Tanga in Tanganyika, over which about 8-10 mw of power is imported from Tanganyika.

Prime electric power targets for Kenya include the 132 kv transmission line from Uganda; the substations at Tororo, Lessos, Lanet, and Nairobi; the Wanjii and Tana hydroelectric powerplants; the Nairobi south diesel powerplant; and the Kipevu thermal powerplant in Mombasa.

1. The transmission line from Uganda to Nairobi, Kenya, is a double circuit, 132 kv line, extending 251.5 miles from Tororo, in Uganda. The line crosses the Nandi Reserve, to Lessos (00-17N; 35-20E), then continues southeast to Lanet (00-17S; 36-00E). The latter half of the line follows fairly close

25X1C

25X1C

to the railroad to Nairobi. [redacted]

[redacted]

2. The substation at Tororo is the take-off point for the transmission line to Kenya. It is located in Uganda, near the border of Kenya (00-44N; 34-09E). The transformer station is on the road 6 1/2 miles west of the town.

3. The substation at Lessos, which is 24 miles from Eldoret, is used to feed power from Uganda into the 33 kv network in Nyanza Province. A 33 kv line extends from Lessos south to Chemelil, and thence two 33 kv lines, one southeast to Kericho, and one west to Kisumu. These lines supply power for a large sugar factory at Miwani, tea factories in the Nandi area, and industries at Kisumu. Another line was to be constructed by 1963 from Lessos north to Eldoret, and on to Kitale to the northwest, but it is not known whether this plant has been completed.

4. The substation at Lanet feeds power from the main 132 kv line to the Nakuru area. From Nakuru a 33 kv network supplies power to Gilgil, to the southeast, and to Thompson's Falls to the northeast. It was planned to extend this network to Elburgan and Molo, west of Lanet, but it is not known whether this has been completed.

5. The Nairobi substation, located at Juja Road, is the terminal point of the double circuit 132 kv line from Uganda, bringing power to consumers in the Nairobi area. There is also a 66 kv line coming into the substation from the Wanjii and Tana hydroelectric powerplants north of Nairobi. Ninety-five percent of the power supply of Nairobi is hydroelectric power, brought in over these lines. The destruction of the substation would disrupt the power supply of the Nairobi area.

6. The Tana Hydroelectric Powerplant, with a capacity of 16 mw, is 55 miles north of Nairobi, on the Tana River. It is east of Fort Hall, and just a few miles from the Wanjii Hydroelectric Powerplant.

7. The Wanjii Hydroelectric Powerplant, with a capacity of 6 mw, is on the north bank of the Maragua River, about a mile south of Fort Hall. A tunnel 3 1/5 miles long carries water from the Mathioya River, about a mile west of Fort Hall. A dam across the Mathioya River forms a reservoir to supply the water which is sent through the tunnel.

8. The Nairobi South diesel powerplant has a capacity of 27 mw, which is largely reserve capacity, backing up the hydroelectric power. The exact location is not known, but it is assumed to be on the South side of the town. If the supply of hydroelectric power from Uganda and from the two powerplants north of Nairobi should be knocked out, the Nairobi area would be entirely dependent on this diesel powerplant for electric power.

9. The Kipevu Thermal Powerplant is located in Mombasa, adjoining the Kilindini Docks. It has a capacity of 27.5 mw, including a 12.5 mw generator which was recently installed to meet the demand of the new Changamwe Oil Refinery. In the future it is planned to increase the capacity to 40 mw. Interruption of the supply of power from this powerplant would deprive the coastal area of its principal source of power.